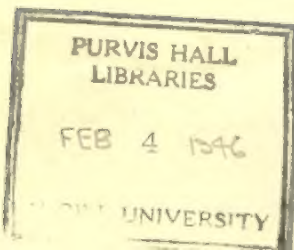


BRITISH COLUMBIA
POWER CORPORATION
LIMITED

ANNUAL
REPORT

•

1943



1943

BRITISH COLUMBIA POWER CORPORATION,
LIMITED

Officers

[illegible]

Directors

E. H. ADAMS	GEORGE KIDD
JOHN DAVIDSON	W. G. MURRIN
S. GODIN, JR.	A. J. NESBITT
A. T. GOWARD	J. W. SPENCER
J. H. GUNDY	P. A. THOMSON
ANDREW P. HOLT	MORRIS W. WILSON

J. B. WOODYATT

THE ROYAL BANK OF CANADA	-	-	-	-	-	-	-	Bankers
THE ROYAL TRUST COMPANY	-	-	-	-	-	-	-	Registrar
MONTREAL TRUST COMPANY	-	-	-	-	-	-	-	Transfer Agent
PRICE, WATERHOUSE & CO.	-	-	-	-	-	-	-	Auditors

Head Office of the Corporation

B. C. ELECTRIC BUILDING

425 Carrall Street

Vancouver, B. C., Canada

ANNUAL REPORT
of the Directors of
**BRITISH COLUMBIA POWER CORPORATION,
LIMITED**

for the year ending December 31, 1943

To be submitted at the Annual General Meeting, April 27th, 1944

TO THE SHAREHOLDERS:

Your Directors beg to submit the following Report on the financial position of your Company and its Subsidiaries as at December 31, 1943, and the results of their combined operations for the year ending on that date.

RESULTS OF OPERATIONS

The following is a condensed consolidated statement of the revenues and expenses of all departments of the business for the year ending December 31, 1943:

Gross Revenue	\$ 23,834,570.96
<i>Deduct—</i>	
Expenses of Operation and Maintenance, etc.	\$ 11,276,892.25
Provision for Depreciation and Renewals.....	3,039,208.92
Provision for Employees' Pension Fund.....	400,000.00
Property Taxes	909,198.39
Provision for Taxes on Income.....	4,350,000.00
	19,975,299.56
Operating Income	\$ 3,859,271.40
<i>Add—</i> Income from Investments.....	\$ 63,730.43
<i>Less—</i> Loss on Sale of Investments.....	4,292.50
	59,437.93
	\$ 3,918,709.33
<i>Deduct—</i> Bond Interest, Amortization of Bond Refunding Expense and Preference Dividends	2,183,318.52
<i>Add—</i> Appropriated from Earned Surplus.....	\$ 1,735,390.81 264,609.19
Dividends on Class "A" Shares for the year.....	\$ 2,000,000.00

GROSS REVENUE

The unprecedented increase in the Gross Revenues of all departments, as disclosed by the statement on the foregoing page, is mainly due to war activity and the resultant growth of population and industry throughout the territories served by the Company.

The gross revenues for the year amounted to \$23,834,571, an increase of \$2,182,096 or 10.08% over the previous year. This increase reflects principally the abnormal demands on our transportation services, which have produced additional income of 20% over last year. While the consumption of electrical energy shows a marked increase over last year the revenue from this source is practically unchanged, due to the order of the Public Utilities Commission of B. C. providing service without charge to all domestic users and other customers during specified dates in the months of November and December. Revenue from the sale of gas has also increased 18.7%, although the quantity of gas sold has increased 21.8%, most of which has been used by war industries at low industrial rates. However, mainly due to the costs of financing Canada's war effort through the heavy burden of Federal taxation, as well as increased labour and other costs, these additional earnings have provided no benefit to the investor whose financial returns in the immediate future will be less than they have been in the past.

EXPENSES

The total expenses, including operation, maintenance and depreciation, and Federal and other taxes, amounted to \$19,975,299, an increase of 14.8% over last year. The total taxes chargeable against this year's income amounted to \$5,259,198, of which \$4,350,000 represents income taxes payable to the Federal Government against which there is a post-war refund of \$530,000.

The increased volume of business in all departments has materially added to the costs of operation and maintenance. Electric Railway and Bus passenger miles operated were greater than last year by 2,011,000 miles, and this increased service has necessitated the employment of 119 additional motormen and conductors at an added cost in wages of more than \$409,000. Rolling stock maintenance and repair costs have increased by \$258,000, consequent on the continuous maximum use of all existing equipment. The greater quantity of gas produced has added over \$150,000 to the cost of manufacture of that commodity. Further cost-of-living bonuses paid during the year and the cost of the War Risk Insurance policy taken out at the commencement of the year are other items accounting for the increase in expenses. There are now 4,625 people on the payroll, with a total annual wages bill of \$8,436,315.

The amount of \$3,039,209 provided in the year for depreciation and renewals is based on rates authorized by the Public Utilities Commission.

NET INCOME AND DIVIDENDS

Despite the large increase in gross revenues there is shown a decrease from last year in net income available for dividend of \$348,465. This reduction is almost entirely due to the application on the full year's operations of the amendment to the Excess Profits Tax Act, effective from 1st July, 1942, which limits the income that may be retained by corporations to seventy per cent of pre-war standard profits.

Payment of the regular dividend of \$2.00 per share per annum on the "A" shares has been declared, and in order to meet this payment it has been necessary to appropriate the sum of \$264,609 from the earned surplus of previous years. Because of the restrictions of the Excess Profits Tax Act, as indicated above, the dividend on the "A" Common Shares will have to be reduced to the amount of earnings available during the year 1944.

OPERATIONS

Transportation System—

Passengers carried:

1943	131,619,270
1942	107,052,564
1939	71,541,392
Increase 1943 over 1942	22.95%
Increase 1943 over 1939	83.98%

During the present year and the past four-year period of war activity all demands on our transportation systems have been met despite the unprecedented difficulties due to lack of new equipment and the shortage of man power. Eleven new buses have been purchased and put into service,

and it is hoped that some additional units will shortly be made available by the Transit Controller. The seventeen P-C-C cars ordered in the spring of 1942 are now being delivered. The plan of staggering hours of employment has been very effective, and the Wartime Transportation Committees formed last year have, in co-operation with large employers of labour, given every assistance in meeting new problems as they arise.

Railway freight traffic increased from 845,000 tons to 890,000 tons. There was a falling off of 170,000 tons in domestic and United States lumber and shingles, although this has been more than offset by export lumber and other traffic.

Light and Power System—

	K.W.H. Sales	Meter Installations	Motor Load in H.P.
1943.....	666,882,069	161,052	258,828
1942.....	607,984,923	158,484	241,834
1939.....	451,614,682	140,729	192,182

The foregoing figures show an increase of 9.69% in K.W.H. sales over 1942. All additional demands for power by the war industries, particularly the shipbuilding and aeroplane plants, metal trades and lumber manufacturing concerns, and for domestic and commercial purposes, have been met during the year. There has been a marked increase in the construction of smaller type dwellings due to the relaxation of federal restrictions on home building and to the greater availability of building materials.

The important question of Rural Electrification is receiving our earnest attention, and our engineers, in collaboration with the special committee appointed by the Provincial Government, are now engaged in a survey with the view of improving the supply and availability of electrical service in the rural areas.

The ability of our light and power system to meet the demands of war plants coupled with a large increase in population is reflected in the comparison of the K.W.H. sales during the year under review with the sales in the year 1939, an increase of 47.67%.

Gas System—The comparative sales of gas were as follows:

	Cubic Feet
Gas sold—1943	2,279,227,000
Gas sold—1942	1,870,555,000
Gas sold—1939	1,402,755,000

The quantity of industrial and domestic gas sold increased proportionately during the year, with a net gain in gross sales of 21.8%. Since the commencement of war in 1939 our gas output has increased by 62.4%, with a one hundred per cent increase in the industrial load alone. This has not, however, been accompanied by a relative increase in revenue. To meet the added demand on our gas system the Company has overhauled and brought into operation the stand-by Glover-West coal gas installation, which has increased our gas production facilities by 2,000,000 cubic feet per day.

PLANT ADDITIONS AND EXTENSIONS

Actual outlays during the year on this account amounted to \$1,550,598, of which the approximate sum of \$396,000 was expended in the extension of our power, light and gas services.

Construction of the additional 8,000 K.V.A. turbo-generator at Brentwood Bay steam plant on Vancouver Island was continued, involving an expenditure of \$650,500. Progress of this installation has been retarded by delay in delivery of auxiliary equipment and the difficulty of obtaining adequate labour, but this new unit will be in operation early in 1944.

In Kamloops, as conditions permitted, progress was made in the installation of the 1,250 K.V.A. steam turbo-generator already delivered, and on the Lower Mainland system additional substation transformer equipment was purchased and installed, involving in all an expenditure of \$113,000.

Progress payments amounting to \$234,000 have been made on the purchase of the seventeen P-C-C street-cars now being delivered, and \$119,000 was expended on the eleven passenger buses purchased and put into service during the year.

PUBLIC UTILITIES COMMISSION

The report of the Public Utilities Commission which was presented to the Lieutenant-Governor in Council under date July 1943, marked the culmination of four years intensive research on the part of the investigators employed by the Commission into every phase of the Company's business, back to the inception of the Company and beyond to its predecessor companies. The object was to determine the value of the properties for rate-making purposes, and to examine the financial results

of its different operations in recent years. The reports of the engineering and accounting experts for the Commission were presented for discussion at public hearings in Vancouver, Victoria and other centres, at which argument by representatives of the Company and the municipalities was presented to the Commission over a period of several months. The management of the Company believes that no more intensive and deep-seated review of the affairs of any utility has taken place in Canada; and, while the investigation—coming as it did during the war—placed an additional strain on Company personnel, every effort was made by officers and staff of the Company to collaborate with the Public Utilities Commission and its staff in finding the facts on which the conduct of the Company's businesses could be judged.

The Public Utilities Commission found the value or "rate base" for rate-making purposes, for all our services combined as at 1942, to be—

Undepreciated	\$109,589,499
Depreciated	78,951,523

The foregoing figures do not include an expenditure of approximately \$5,000,000 on the power development at Bridge River, which expenditure the Commission report admits to have been "prudent and reasonable", and in connection with which expenditure certain carrying charges are recommended, nor do they include the assets of B. C. Motor Transportation, Ltd., and the expenditures on certain interurban railway lines which did not come within the scope of this enquiry or were outside the jurisdiction of the Commission. All of these expenditures, as well as certain property classed as "inactive", would have to be taken into account in any valuation for sale.

It may be pointed out, however, with regard to property values, that an independent appraisal made by Stone & Webster Engineering Corporation, as of December 1936, showed a total replacement cost (after a deduction for physical depreciation) of \$131,802,312, to which must be added net property additions since that date; also that the property account as shown on the Company's balance sheet shows gross book values before depreciation of \$148,865,319.

The two rate bases as determined by the Commission differ by the amount of depreciation reserves accumulated by our subsidiary companies, which reserves the Commission found to be "reasonable and sufficient". Although the Company argued that the rate of return to be allowed a combination of utilities such as ours should be higher, the rates of return found to be fair by the Utilities Commission were 5.3% on the undepreciated rate base and 5.8% on the depreciated rate base. Allowing for the fact that with the undepreciated rate base an allowance of interest on the reserves for depreciation is a first charge upon the return, the alternative rates of return when applied to the respective rate bases produce the same amount of return upon the securities held by the public.

No Order has been made by the Commission arising out of its report of July 1943.

In a brief second report of the Public Utilities Commission to the Lieutenant-Governor in Council, dated November 1943, the Commission referred to the fact that, although its first report found that a reduction in charges to customers in some units of service was indicated on the basis of 1942 revenues, an analysis of the revenue situation over the past five years indicated that the 1942 revenues could not be considered to be normal. The second report further pointed out that, because of the abnormal conditions of the present time, it was not opportune to make a complete review of our rate structures. This report, which was followed by an Order dated November 13th, 1943, stated that relief to customers under abnormal war-time conditions should be temporary in character, and it therefore proposed the device of not charging all domestic, and certain commercial and power, electrical customers for electrical energy used during a period of one month in the Lower Mainland, Newcastle-Nanoose area and Comox-Nelson area; and during a period of two months in Vancouver Island South area, Alberni area and Kamloops.

PENSION FUND

The Company for many years has had in effect a non-contributory pension plan, under which it makes monthly payments to 206 employees who are presently retired on pension. While this scheme has proved satisfactory in the past it has been deemed advisable to explore alternative plans by actuarial study. This actuarial study has been undertaken by authority of the Board and negotiations have been opened with the Department of National Revenue, who have jurisdiction in such matters.

LITIGATION

On 1st April, 1943, an action by the Crown against the British Columbia Electric Railway Company, Limited, was commenced in the Exchequer Court of Canada to recover the amount of a tax

(and interest thereon) which the Federal authorities claimed should have been withheld from dividends paid up to April 1941 to non-resident holders of the 5% Cumulative Perpetual Preference stock of the Company. On the advice of Counsel the claim was contested. The action was tried in December 1943; judgment was reserved and has not yet been delivered. The balance sheet shows as a contingent liability the approximate sum of the amount claimed in the action and the amount which, if the Crown is successful in the action, will no doubt also be claimed in respect of the period since April 1941 down to 31st December, 1943.

PUBLIC OWNERSHIP AND POST-WAR PLANS

Discussions have taken place between the British Columbia Government and civic and municipal representatives following the announcement by the Premier of British Columbia, the Hon. John Hart, that any proposal by the municipalities to acquire the properties and various undertakings of the Company would be implemented by Provincial assistance. So far no proposal has been presented to the Company. If and when any fair proposal for the purchase of the Company's properties as a whole, with proper safeguards of ability to perform, is presented to the officers and directors, it will be submitted to the stockholders. It is difficult to conceive of any proposal having a practical outcome which did not involve the purchase of all the properties of the Company.

Naturally such discussions have an important bearing on the Company's post-war plans for expansion and rehabilitation, which have been given much thought by Company officers and which involve the finding of large sums of money over what we believe will be a post-war period of expansion. In connection with future money requirements I cannot do better than to quote from the report of the Public Utilities Commission of July, 1943:

"It was necessary for the Legislature to insist upon a fair and reasonable return to the utility for the reason that, unlike most business and industrial enterprises where fresh expenditures are infrequent, a public utility, and more particularly one supplying electricity to the public, is continually expanding and making new capital expenditures, and the utility must go to the public to get the money for such development.

"To get the required money it must compete in the money markets with others requiring capital, and hence it follows that the investor must see the opportunity to earn a fair return on his money from the utility or he will not invest."

Your Company plans to be helpful to industry in adjusting its operations to a peace-time basis, (in getting new industries and in finding markets for new products which the area can produce.) Among other things we visualize a large demand for electrical appliances and equipment after the war, and it is our intention to co-operate with dealers, merchandisers and manufacturers to the end that the greatest benefits from low electric rates are made available on the farm and in the home, office, store and factory.

BOARD OF DIRECTORS

Your directors very much regret the resignations of Mr. H. R. MacMillan and Mr. Austin C. Taylor from the Board.

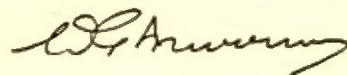
STAFF

Your directors are proud to record that over 650 of our men and women employees have joined the armed services and are playing their part in winning the war and in the defence of Canada. These employees have every assurance of reinstatement and sympathetic assistance in their rehabilitation on their return to civilian life. Many of our employees have voluntarily joined A.R.P. and other civil defence organizations, and in the course of their duties our employees both day and night are creditably meeting all the demands of the war, industry, and an expanded civil population under circumstances that call for skill, energy and patience. Your directors desire to express to all members of our organization their appreciation of the manner in which their duties have been carried out.

AUDITORS' EXAMINATION

The report of your Auditors, Messrs. Price, Waterhouse & Co., is appended to the Consolidated Balance Sheet submitted herewith.

Respectfully submitted on behalf of the Board,



March 23rd, 1944.

President.

ASSETS

CURRENT AND WORKING ASSETS:

Cash at Banks and on hand.....	\$ 1,174,821.96	
Dominion of Canada bonds and City of Vancouver debentures, at cost.....	3,048,513.60	
(Quoted market value—\$3,038,653.46)		
NOTE: The Dominion of Canada bonds are held by the bank pending payment of the unpaid balance of the purchase price (per contra).		
Accounts Receivable less Reserve.....	2,116,369.07	
Employees' Housing Loans, Mortgages, etc.....	31,661.92	
Inventories of Stores, Materials and Supplies, determined as to quantities by book inventories confirmed annually by physical count or measurement, valued at average cost.....	1,746,723.59	
		\$ 8,118,090.14

TENTATIVE DEPOSIT WITH TRUSTEE FOR EMPLOYEES' PENSION FUND (per contra).....	400,000.00
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INVESTMENTS:

Corporation's shares held by subsidiaries.....	666,539.77
(Quoted market value December 31, 1943—\$394,910.00)	

BOND REFUNDING EXPENSE:

Premium and exchange on bonds redeemed, bond conversion expenses and discounts less amounts written off	1,113,970.57
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DEFERRED CHARGES:

Insurance unexpired, deferred regulatory commission expenses, and other prepaid items.....	335,004.25
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ESTIMATED RECOVERABLE PROPORTION OF EXCESS PROFITS TAX (per contra).....	800,000.00
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PROPERTY ACCOUNT:

Book values which represent the cost of acquisition, and the cost of subsequent additions, including discount on bonds of \$728,670.56 which is charged to construction accounts of subsidiaries.....	\$ 148,865,319.05	
Less Provision for Depreciation and Renewals.....	36,020,365.04	
		112,844,954.01

NOTE: An appraisal of the properties of British Columbia Power Corporation, Limited and its subsidiaries, made by Stone & Webster Engineering Corporation of Boston, Massachusetts, as of December 31, 1936, shows a total replacement cost as at that date (after a deduction for existing physical depreciation) of \$131,802,312. This foregoing total includes an amount of \$15,000,000 for going concern value.

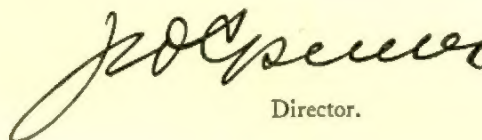
The balance in the property account as at December 31, 1936, after deducting the reserve for depreciation, was \$113,739,799.32.

Approved on behalf of the Board:

\$ 124,278,558.74



Director.



Director.

CORPORATION, LIMITED

IAIRY COMPANIES

as at December 31, 1943

LIABILITIES

CURRENT AND ACCRUED LIABILITIES:

Balance unpaid on purchase of Dominion of Canada bonds (per contra).....	\$ 1,000,000.00	
Accounts Payable	2,029,551.16	
Reserve for Taxes on Income and other Taxes.....	2,361,410.85	
(After a payment of \$2,409,760.00 on 1943 taxes)		
Debt and Bond Interest accrued.....	492,609.93	
Dividends declared, since paid.....	735,920.00	
		\$ 6,619,491.94

BOND DEBT (as per statement attached)..... 36,712,624.50

CAPITAL STOCKS OF SUBSIDIARIES HELD BY PUBLIC:

<i>British Columbia Electric Railway Co., Ltd.—</i>		
5% Cumulative Perpetual Preference Stock, £1,440,000.0.0 at \$4.85.....	\$ 6,984,000.00	
<i>British Columbia Electric Power & Gas Co. Ltd.—</i>		
6% Cumulative Preference Shares.....	5,000,000.00	
The Company has the right to redeem these 6% Preference Shares with a premium of 5% subject to the sanction of the Supreme Court of British Columbia.		
Minority Shareholders of Subsidiaries.....	3,446.25	11,987,446.25

RESERVES:

General, Contingent and Accident.....	\$ 1,405,471.41	
Employees' Pension Fund (per contra).....	400,000.00	
		1,805,471.41

CAPITAL:

Authorized—

1,500,000 Class "A" Shares without nominal or par value entitled in each fiscal year to non-cumulative preferential dividends aggregating \$2.00 per share and equal participation with Class "B" Shares up to a further \$3.00 per share, redeemable at any time on resolution of Directors at \$100.00 per share.

1,500,000 Class "B" Shares without nominal or par value.

Issued—

1,000,000 Class "A" Shares and	
1,000,000 Class "B" Shares issued for a total cash consideration of.....	\$ 59,250,000.00

CAPITAL SURPLUS:

Surpluses of Subsidiaries as at May 19, 1928, the date of the acquisition of their Capital Stocks by the Corporation.....	6,115,764.59
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DEFERRED SURPLUS:

Estimated recoverable proportion of Excess Profits Tax (per contra).....	800,000.00
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EARNED SURPLUS (as per statement attached)..... 987,760.05

67,153,524.64

CONTINGENT LIABILITY:

In connection with an action by the Crown against British Columbia Electric Railway Company, Limited, as referred to in the Directors' Annual Report herewith	\$ 372,312.40
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\$ 124,278,558.74

AUDITORS' REPORT TO THE SHAREHOLDERS

We have made an examination of the books and accounts of British Columbia Power Corporation, Limited and its Subsidiary Companies for the year ending December 31, 1943, and have obtained all the information and explanations which we have required.

The Corporation's returns for Income and Excess Profits Taxes have been assessed up to and including the year 1939, and those of its Subsidiary Companies up to and including the year 1940. The returns for the subsequent years have not yet been passed upon by the taxation authorities and, therefore, the liability included in the attached Consolidated Balance Sheet in respect of Taxes on Income is subject to the results of such review.

We report that subject to the comment in the foregoing paragraph relative to the Reserve for Taxes on Income, the attached Consolidated Balance Sheet at December 31, 1943, is, in our opinion, properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of the Corporation and its Subsidiary Companies, according to the best of our information and the explanations given to us and as shown by the books of the Companies.

VANCOUVER, B. C.
March 15, 1944.

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

BRITISH COLUMBIA POWER CORPORATION, LIMITED
AND SUBSIDIARY COMPANIES

*Consolidated Statement of Income and Earned Surplus
for the year ending December 31, 1943*

Gross Revenue from Operations.....		\$ 23,834,570.96
<i>Deduct—</i>		
<i>Expenses:</i>		
Operation and Maintenance, including Property Taxes.....	\$ 11,972,341.65	
Legal Fees and Executive Remuneration.....	99,939.67	
Directors' Fees	23,809.32	
Provision for Accidents.....	90,000.00	
Provision for Employees' Pension Fund.....	400,000.00	
Provision for Depreciation and Renewals	3,039,208.92	
Provision for Taxes on Income (including \$530,000.00 representing Estimated Recoverable Proportion of Excess Profits Tax for the year).....	4,350,000.00	
		<u>19,975,299.56</u>
Operating Income		\$ 3,859,271.40
<i>Add—</i>		
Income from Investments.....	\$ 63,730.43	
<i>Less—</i>		
Loss on Sale of Investments.....	4,292.50	
		<u>59,437.93</u>
		\$ 3,918,709.33
<i>Deduct—</i>		
Interest on Bond Debt.....	\$ 1,488,966.00	
Bond Refunding Expenses written off.....	72,512.52	
		<u>1,561,478.52</u>
Net Income for the year.....		\$ 2,357,230.81
<i>Add—</i>		
Earned Surplus as at January 1, 1943.....		1,252,369.24
		<u>\$ 3,609,600.05</u>
<i>Deduct—</i>		
<i>Dividends on Preference Stock of Subsidiaries:</i>		
5% Cumulative Perpetual Preference Stock—£72,000.0.0 at \$4.47	\$ 321,840.00	
6% Cumulative Preference Shares	300,000.00	
		<u>621,840.00</u>
		\$ 2,987,760.05
<i>Deduct—</i>		
Dividends on Class "A" Shares of Parent Company.....		2,000,000.00
Earned Surplus as at December 31, 1943.....		<u><u>\$ 987,760.05</u></u>

BRITISH COLUMBIA POWER CORPORATION, LIMITED

AND SUBSIDIARY COMPANIES

Bond Debt as at December 31, 1943

BRITISH COLUMBIA POWER CORPORATION, LTD.:

First Refunding and Collateral Trust Serial Bonds

3½%, Series "A"—

Authorized and Issued.....	\$	1,600,000.00	
Less—Redeemed		800,000.00	
		<u>800,000.00</u>	
Maturing March 1, 1944.....	\$	400,000.00	
" March 1, 1945.....		400,000.00	
		<u>400,000.00</u>	

First Refunding and Collateral Trust Bonds 4¼%, maturing March 1, 1960—

Authorized and Issued:

1939 Series	\$	4,500,000.00	
Less—			
Redeemed		185,000.00	
		<u>4,315,000.00</u>	
Series "A"		10,800,000.00	
		<u>15,115,000.00</u>	
			\$ 15,915,000.00

BRITISH COLUMBIA ELECTRIC RAILWAY Co., LTD.:

4¼% Perpetual Consolidated Debenture Stock.....	£2,788,170.0.0	
	@ \$4.85	13,522,624.50

VANCOUVER POWER Co., LTD.:

4¼% Perpetual Guaranteed Debenture Stock—

Authorized £1,917,350, of which issued.....	£1,500,000.0.0	
	@ \$4.85	7,275,000.00

As per Consolidated Balance Sheet.....	\$	<u>36,712,624.50</u>
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